

Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
-----103760 121114Z /10

O R 121035Z NOV 77
FM AMEMBASSY ANKARA
TO SECSTATE WASHDC IMMEDIATE 9472
INFO AMCONSUL ISTANBUL
AMCONSUL ADANA POUCH
AMCONSUL IZMIR
AMEMBASSY ATHENS
AMEMBASSY NICOSIA
USMISSION GENEVA

C O N F I D E N T I A L SECTION 1 OF 3 ANKARA 8318

EXDIS

GENEVA FOR GATT

E.O. 11652: GDS
TAGS: EFIN, EGEN, IMF, TU
SUBJ: TURKISH NEGOTIATIONS WITH IMF

1. HOW CLOSE TURKEY IS TO AGREEMENT WITH IMF IS NOT
CLEAR EVEN TO THE TURKS, TO JUDGE FROM SEPARATE MEETINGS
IN ANKARA NOVEMBER 11 WITH FINANCE MINISTER CIHAT BILGEHAN
AND MFA SECRETARY GENERAL SUKRU ELEKDAG HELD BY ROBERT
HORMATS, DEPUTY ASSISTANT SECRETARY FOR ECONOMIC AND
BUSINESS AFFAIRS, AND RAYMOND EWING, DEPUTY DIRECTOR,
OFFICE OF SOUTHERN EUROPEAN AFFAIRS. MINISTER CONVEYED
A CAUTIOUS OPTIMISM, HOPING THAT AGREEMENT WOULD BE REACHED
WITH FUND BY END OF WEEK BEGINNING NOVEMBER 13. KEY TO
THIS IS GOVERNMENT AGREEMENT ON 1978 BUDGET AND ECONOMIC PROGRAM
ACCEPTABLE TO FUND. ELEKDAG PAINTED DARKER PICTURE, LISTING
FOUR AREAS OF DIFFICULTY THAT HAVE PROLONGED NEGOTIATIONS:
1978 IMPORT LEVEL, SIZE OF FURTHER LIRA DEVALUATION (WHICH
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APPEARS TO BE MOST IMPORTANT IMPEDIMENT), 1978 BUDGET
LEVEL, AND IMF'S TYPING AVAILABILITY OF COMPENSATORY
FINANCING FUNDS TO STANDBY AGREEMENT.

BILGEHAN

2. FINANCE MINISTER BILGEHAN HOPED THAT TURKEY WOULD

REACH AGREEMENT WITH IMF BY END OF WEEK BEGINNING NOV 13
IF NO SERIOUS DIFFERENCES ARISE WHEN FY 1978 BUDGET OF
TL 250-260 BILLION IS CONSIDERED AT MEETING OF HIGH PLANNING
COUNCIL ON NOVEMBER 12 AND LATER BY COUNCIL OF MINISTERS.
IMF HAS RECOMMENDED THAT FIGURE.

3. BILGEHAN SAID THAT TURKEY WAS DETERMINED TO TRY TO SOLVE
ITW OWN PROBLEMS. TURKS, HOWEVER, WOULD BE GLAD FOR SUPPORT
OF THEIR FRIENDS AS THEY SET ABOUT THIS WORK.

4. WHILE IMF MISSION WAS TASKED WITH LOOKING AT ECONOMIC
SIDE OF TURKEY'S PROBLEMS, MINISTER COMMENTED, GOVERNMENT HAD
TO LOOK AT SOCIAL SIDE AS WELL(PARTICULARLY VERY
HIGH RATE OF UNEMPLOYMENT). HE SAID THAT DIFFICULTIES IN
RECONCILING THE TWO ASPECTS WERE PROLONGING THE TALKS.

5. HORMATS EXPLAINED TOUGH MEASURES OTHERS HAD TAKEN
TO STABILIZE ECONOMIES. MINISTER RESPONDED THAT
TURKEY'S PARTICULAR TYPE OF COALITION GOVERNMENT MADE ITS
SITUATION SOMEWHAT MORE DIFFICULT THAN THOSE OF UK,
ITALY, PORTUGAL, AND SPAIN IN THEIR NEGOTIATIONS WITH
FUND. ALTHOUGH IT WAS HARD FOR COALITION TO AGREE ON
REFORM MEASURES, IT WAS GENUINELY TRYING TO DO SO.
COALITION GOVERNMENT PROTOCOL PROVIDED BASIS FOR A REFORM
PROGRAM (ANKARA 5564).

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6. MINISTER DID NOT APPROVE, HE SAID, BUT IT HAPPENS
THAT IN THIS TYPE OF GOVERNMENT SOME PARTY LEADERS SPEAK
OF GREAT PROJECTS AND INVESTMENTS TO GIVE HOPE TO THE
PEOPLE. THIS TALK IS INTERNAL POLITICS. IT DOES NOT
MEAN THAT GOVERNMENT WILL DEVIATE FROM ITS ECONOMIC
TARGETS ONCE AGREED UPON.

7. ALTHOUGH IT WILL TAKE TIME ACTUALLY TO RECEIVE CRE-
DITS FROM IMF, MINISTER HOPED THAT AGREEMENT WITH FUND
WOULD BE SEEN BY INTERNATIONAL BANKING COMMUNITY AS
GREEN LIGHT FOR RESUMPTION OF LENDING TO TURKEY.
IF THIS SHOULD NOT HAPPEN, GOVERNMENT, HE SAID, WOULD
SERIOUSLY CONSIDER WHETHER OR NOT TO ENTER INTO
AGREEMENT WITH IMF.

ELEKDAG

8. IN LATER MEETING SAME DAY, MFA SECRETARY GENERAL
SUKRU ELEKDAG SAID THAT TALKS WITH IMF HAD BEEN PROLONGED
UNDULY WITH HARMFUL EFFECTS: SPECULATION HAD MOUNTED,
STOCKS AND INVENTORIES HAD INCREASED, CONCERNS OF FOREIGN
BANKS HAD GROWN. IF PROLONGED FURTHER, HE THOUGHT,

DELAY WOULD HAVE DETERIORATING EFFECT UPON ECONOMY.

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
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TO SECSTATE WASHDC IMMEDIATE 9473
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C O N F I D E N T I A L SECTION 2 OF 3 ANKARA 8318

EXDIS

GENEVA FOR GATT

9. DELAY HAD BEEN DUE TO FOUR MAJOR DIFFICULTIES WITH
FUND TEAM, ELEKDAG EXPLAINED:

A. DETERMINATION OF IMPORT LEVEL FOR 1978.

(1) IMF INSISTS THAT LEVEL OF IMPORTS BE FIXED AT
\$4.5 BILLION FOR 1978. FUND THINKS THERE IS REA-
SONABLE EXPECTATION OF FINANCING THE CURRENT EXTERNAL
DEFICIT WHICH WOULD HAVE TO BE MET AT SUCH A
LEVEL. FUND MAINTAINS THAT ALTHOUGH THIS FIGURE IMPLIES
A LOWER RATE OF GROWTH, IT WOULD BE A SUSTAINABLE RATE--
AROUND 4.5 PERCENT. BUT, ELEKDAG ARGUED, RATE OF POPU-
LATION GROWTH IS 2.6 PERCENT. TURKISH OFFICIALS ARE
DISTURBED THAT \$4.5 BILLION IMPORT LEVEL WOULD
INCREASE NONAGRICULTURAL UNEMPLOYMENT, PRESENTLY ABOUT
15 PERCENT. IF UNEMPLOYMENT INCREASES,
A POLITICALLY AND SOCIALLY INTOLERABLE SITUATION WILL
DEVELOP.

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(2) TURKS, FOR THEIR PART, HOPE THAT \$5 BILLION IMPORT LEVEL COULD BE AGREED FOR 1978. THEN GNP INCREASE WOULD BE 6.5 PERCENT, A FIGURE WHICH OFFICIALS BELIEVE WOULD MEAN A MANAGEABLE UNEMPLOYMENT SITUATION. IN TURKISH ECONOMY, ELEKDAG SAID, A SMALL DECREASE IN IMPORT LEVEL HAS NEGATIVE MULTIPLIER EFFECT ON ECONOMY AS A WHOLE IN VIEW OF FACT THAT IMPORTS ARE MAINLY INVESTMENT GOODS. IT HAS BEEN SHOWN, HE SAID, THAT IMPORTS HAVE A MOBILIZING RATIO OF 1:4 ON THE ECONOMY: I.E., FOR EACH \$100 WORTH OF GOODS IMPORTED-TURKISH DOMESTIC RESOURCES WORTH ABOUT \$400 ARE MOBILIZED. (3) IN ORDER FOR IMF TO ACCEPT A \$5 BILLION IMPORT LEVEL FOR 1978, ELEKDAG SAID, THERE SHOULD BE REASONABLE EXPECTATION OF A SUFFICIENT LEVEL OF EXTERNAL RESOURCES TO BALANCE CURRENT GAP AT THAT LEVEL. HE SUGGESTED THAT MR. HORMATS MIGHT USE HIS GOOD OFFICES WITH AMERICAN BANKS TO ENCOURAGE CREDITS TO TURKEY. IMPORTANCE OF PROBLEM, HE BELIEVED, DESERVED US POLITICAL ATTENTION.

B. LIRA DEVALUATION.

IMF HAS SUGGESTED THAT GOT DEVALUE ANOTHER 20 PERCENT IN ADDITION TO 10 PERCENT DEVALUATION AGAINST DOLLAR EFFECTED SEPTEMBER 21. TURKS, ELEKDAG SAID, BELIEVE THIS FIGURE IS TOO HIGH. THEIR POSITION IS THAT THEY HAVE TAKEN TWO ADDITIONAL MEASURES WHICH EFFECTIVELY HAVE INCREASED REAL RATE OF DEVALUATION OF SEPTEMBER 21: (A) IMPOSITION OF A STAMP DUTY WHICH RAISES COST OF IMPORTS AND (B) INCREASE TO 30 PERCENT OF IMPORT-GUARANTEE DEPOSITS. DEVALUATION BY FURTHER 20 PERCENT WOULD BE UNNECESSARY.

C. 1978 BUDGET.
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GOVERNMENT WILL BE ASKED TO ACCEPT A TL 250-260 BILLION BUDGET (COMPARED TO TL 300 BILLION IN 1977), INCLUDING SUPPLEMENTAL APPROPRIATIONS). ELEKDAG MADE NO COMMENTS ON THIS ITEM, BUT IMPRESSION HERE IS THAT MAJORITY OF TECHNICIANS AND SOME MINISTERS ACCEPT THIS. D. RELATION OF COMPENSATORY FINANCING FUNDS TO STANDBY AGREEMENT.

MODIFYING AN EARLIER POSITION, IMF DELEGATION NOW STATES THAT COMPENSATORY FINANCING FACILITY (CFF) SHOULD BE STUDIED TOGETHER WITH STANBY AGREEMENT, ACCORDING TO ELEKDAG. WHEN FOREIGN MINISTER CAGLAYANGIL

WAS IN WAHSINGTON AT BEGINNING OF OCTOBER, THERE WAS UNDERSTANDING BETWEEN HIM AND FUND THAT TURKEY WAS ELIGIBLE FOR, AND WOULD RECEIVE, CFF FUNDS THAT IT HAD NOT ALREADY DRAWN (\$45MILLION). BUT FUND NOW WANTS TO DISCUSS CFF TOGETHER WITH STANDBY. TURKISH SIDE (PARTICULARLY BILGEHAN) SEEMS GENUINELY TO BELIEVE THAT FUND HAD RENEGED ON EARLIER CFF COMMITMENT AND IS PROVIDING NO JUSTIFICATION FOR ITS SWITCH.

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ACTION SS-25

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FM AMEMBASSY ANKARA
TO SECSTATE WASHDC IMMEDIATE 9474
INFO AMCONSUL ISTANBUL
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USMISSION GENEVA

C O N F I D E N T I A L SECTION 3 OF 3 ANKARA 8318

EXDIS

GENEVA FOR GATT

10. MR. HORMATS SAID THAT HE RESPONDED AS SOMEONE SYMPATHETIC TO TURKEY AND AS A REPRESENTATIVE OF A GOVERNMENT THAT WAS AT ALL LEVELS HIGHLY CONCERNED ABOUT PROBLEMS TURKEY FACES. HOWEVER, USG HAS POLICY FROM WHICH IT HAS NOT DEVIATED UNDER HEAVY PRESSURE IN PAST. THIS IS NOT TO INTERFERE IN FUND'S NEGOTIATIONS WITH OTHER COUNTRIES. US ADHERES TO THIS POLICY, HE EXPLAINED, BECAUSE IF IT WERE EVEN SUSPECTED THAT FUND WAS SUBJECT TO SUCH PRESSURES RATHER THAN ACTING ON SOUND AND INDEPENDENT ECONOMIC CONSIDERATIONS, ITS EFFECTIVENESS AND CREDIBILITY IN FANANCIAL MARKETS WOULD BE UNDERMINED. COMMERCIAL BANKS WOULD REGARD FUND AGREEMENTS AS COMPROMISED. AGREEMENTS WOULD NO LONGER ATTRACT COMMERCIAL

FINANCING TO SIGNATORY COUNTRIES. SIGNATORIES TO IMF
STANDBYS, FAR FROM BEING HELPED, WOULD SUFFER THE
CONSEQUENCES.

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11. USG, HE ADDED, UNDERSTANDS THAT STABILIZATION AGREE-
MENTS USUALLY INVOLVE PAINFUL SLOWDOWN IN GROWTH RATE
THAN NO COUNTRY LIKES. BUT IT IS NOW GENERALLY ACCEPTED
THAT IN SUCH CASES DIFFICULT PERIOD OF ADJUSTMENT IS NECESSARY
AS BASIS FOR FUTURE LONG-TERM PROSPERITY. FUND IS NOT THE
PROBLEM. RATHER, PROBLEM IS AN EXTENDED PERIOD OF HIGHER
CURRENT-ACCOUNT IMBALANCES THAN A COUNTRY CAN SUS-
TAIN. POLITICAL CONSEQUENCES OF STABILIZATION MEASURES
HAVE OFTEN BEEN BETTER THAN ANTICIPATED. BEFORE SUCH
MEASURES WERE THAKEN BY ITALY, PRIME MINISTER ANDREOTTI
WAS GIVEN ONLY 2-3 MONTHS TO SURVIVE POLITICALLY; NOW HE
IS STRONG. NEARLY THE SAME THING COULD BE SAID OF
MESSRS CALLAHAN AND HEALY IN THE UK.

BF ELEKDAG WAS NOT CONVERTED BY THESE ARGUMENTS BUT
TOOK CONFORT IN HORMAT'S ASSURANCES THAT USG WAS CON-
SIDERING WAYS OF NON-AID COOPERATION WHICH MIGHT BE
HELPFUL TO TURKEY IN STRENGTHENING ITS
ECONOMY.

13. FURTHER DETAILS WILL BE REPORTED BY MEMORANDUM OF
CONVERSATION.

14. COMMENT. WE HAVE PICKED UP FEELING FROM DISCUSSIONS
WITH MINISTER BILGEHAN AND ALSO WITH GOVERNOR SADIKLAR
OF CENTRAL BANK AND SADULLAH AYGUN, HEAD OF TURKISH
TEAM NEGOTIATING WITH IMF, THAT IT IS NOT IMPOSSIBLE
THAT DEPUTY PRIME MINISTER ERBAKAN WILL COOPERATE WITH
OTHER ELEMENTS OF COALITION AND AGREE TO ECONOMIC
STABILIZATION MEASURES ACCEPTABLE TO IMF, NO MATTER
WHAT HE MAY BE SAYING PUBLICLY. THERE IS
APPARENTLY STRONG DESIRE ALSO WITHIN BUREAUCRACY
TO REACH AGREEMENT BEFORE LONG SACIFICE HOLIDAY WHICH
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BEGINS NOVEMBER 22. AFTER THAT, COMPROMISE
COULD BE COME MORE DIFFICULT AS DECEMBER LOCAL
ELECTIONS DRAW NEAR.
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Message Attributes

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